



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 31, 2002

TO: Supervisor Zev Yaroslavsky, Chair
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY FLOOD
CONTROL DISTRICT FOR THE YEAR ENDED JUNE 30, 2001**

Pursuant to Government Code Section 26909, we audited the financial statements of the Los Angeles County Flood Control District (District) for the year ended June 30, 2001. Our attached reports conclude that no material weaknesses involving the District's internal controls over financial reporting were noted, and the financial statements are presented fairly in conformity with generally accepted accounting principles and State regulations governing special districts.

PTM:DR:JS:EB
Attachments

c: David E. Janssen, Chief Administrative Officer
James A. Noyes, Director, Department of Public Works
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Audit Committee



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J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 31, 2002

The Honorable Board of Supervisors
Los Angeles County Flood Control District
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Report on Internal Controls

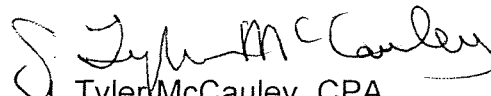
Dear Supervisors:

In planning and performing our audit of the financial statements of the Los Angeles County Flood Control District (District) for the year ended June 30, 2001, we considered the internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of the Board of Supervisors and management of the District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,


J. Tyler McCauley, CPA
Auditor-Controller

PTM:DR:JS:EB

c: David E. Janssen, Chief Administrative Officer
James A. Noyes, Director, Department of Public Works
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Audit Committee

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

Component Unit Financial Statements
Year Ended June 30, 2001

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**COUNTY OF LOS ANGELES
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J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 31, 2002

Independent Auditor's Report

The Honorable Board of Supervisors
Los Angeles County Flood Control District
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

We have audited the component unit financial statements of the Los Angeles County Flood Control District (District) as of June 30, 2001. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2001, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles and State regulations governing special districts.

A handwritten signature in dark ink, reading "J. Tyler McCauley". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

J. Tyler McCauley, CPA
Auditor-Controller

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

| | GOVERNMENTAL FUND TYPES | | | FIDUCIARY FUND TYPE | ACCOUNT GROUPS | | TOTAL (MEMORANDUM ONLY) |
|---|-------------------------|-------------------------|-----------------------------|------------------------|---------------------------------|---------------------------------------|-------------------------------|
| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>CAPITAL PROJECTS</u> | <u>AGENCY</u> | <u>GENERAL FIXED ASSETS</u> | <u>GENERAL LONG-TERM DEBT</u> | |
| ASSETS: | | | | | | | |
| Pooled cash and investments (Note 3) | \$ 122,016 | 4,984 | 100 | 3,909 | | | 131,009 |
| Advances from Other Funds | 6,842 | | | | | | 6,842 |
| Other investments (Note 3) | 4,157 | | 184 | | | | 4,341 |
| Taxes receivable | 5,837 | 1,176 | | | | | 7,013 |
| Interest receivable | 1,177 | 48 | | | | | 1,225 |
| Assessments receivable | 8,815 | | | | | | 8,815 |
| Other receivables | 12,298 | | | | | | 12,298 |
| Due from County of Los Angeles | 20,354 | 238 | | | | | 20,592 |
| Fixed assets (Note 4) | | | | | 69,797 | | 69,797 |
| Amount available in debt service funds | | | | | | 5,934 | 5,934 |
| Amount to be provided for retirement of general long-term debt | | | | | | 185,953 | 185,953 |
| TOTAL ASSETS | \$ 181,496 | 6,446 | 284 | 3,909 | 69,797 | 191,887 | 453,819 |

Continued...

See accompanying notes to financial statements.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

| | GOVERNMENTAL FUND TYPES | | | FIDUCIARY FUND TYPE | ACCOUNT GROUPS | | TOTAL (MEMORANDUM ONLY) |
|--|-------------------------|-------------------------|-----------------------------|------------------------|---------------------------------|---------------------------------------|-------------------------------|
| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>CAPITAL PROJECTS</u> | <u>AGENCY</u> | <u>GENERAL FIXED ASSETS</u> | <u>GENERAL LONG-TERM DEBT</u> | |
| <u>LIABILITIES:</u> | | | | | | | |
| Accounts payable | \$ 3,688 | | | | | | 3,688 |
| Due to County of Los Angeles | 18,729 | | | | | | 18,729 |
| Deposits payable | | | | 3,909 | | | 3,909 |
| Deferred revenue | 16,029 | 512 | | | | | 16,541 |
| Estimated liability for litigation and self- insurance claims (Note 6) | 851 | | | | | | 851 |
| Bonds payable (Note 5) | | | | | | 191,887 | 191,887 |
| TOTAL LIABILITIES | 39,297 | 512 | | 3,909 | | 191,887 | 235,605 |
| <u>FUND EQUITY:</u> | | | | | | | |
| Investment in general fixed assets (Note 4) | | | | | 69,797 | | 69,797 |
| Fund balances: (Note 7) | | | | | | | |
| Reserved | 93,050 | 5,934 | | | | | 98,984 |
| Unreserved: | | | | | | | |
| Designated | 31,387 | | | | | | 31,387 |
| Undesignated | 17,762 | | 284 | | | | 18,046 |
| TOTAL FUND EQUITY | 142,199 | 5,934 | 284 | | 69,797 | | 218,214 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 181,496 | 6,446 | 284 | 3,909 | 69,797 | 191,887 | 453,819 |

See accompanying notes to financial statements.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>CAPITAL PROJECTS</u> | <u>TOTAL (MEMORANDUM ONLY)</u> |
|--|----------------|-------------------------|-----------------------------|--|
| <u>REVENUES:</u> | | | | |
| Taxes | \$ 56,718 | 8,796 | | 65,514 |
| Licenses and permits | 598 | | | 598 |
| Fines, forfeitures and penalties | 1,474 | 73 | | 1,547 |
| Interest | 8,212 | 312 | 104 | 8,628 |
| Rents and royalties | 5,693 | | | 5,693 |
| Intergovernmental revenues: | | | | |
| Federal | 5,250 | | | 5,250 |
| State | 2,198 | | | 2,198 |
| Other | 1,530 | 14 | | 1,544 |
| Charges for services | 106,605 | | | 106,605 |
| Miscellaneous | 9,702 | | | 9,702 |
| TOTAL REVENUES | 197,980 | 9,195 | 104 | 207,279 |
| <u>EXPENDITURES:</u> | | | | |
| Current: | | | | |
| Services and supplies | 166,801 | | | 166,801 |
| Other charges | 2,147 | 3 | | 2,150 |
| Debt Service: | | | | |
| Principal | | 17,185 | | 17,185 |
| Interest | | 10,133 | | 10,133 |
| Capital Outlay | 1,909 | | | 1,909 |
| TOTAL EXPENDITURES | 170,857 | 27,321 | | 198,178 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 27,123 | (18,126) | 104 | 9,101 |

Continued...

See accompanying notes to financial statements.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>CAPITAL PROJECTS</u> | <u>TOTAL (MEMORANDUM ONLY)</u> |
|--|-------------------|-------------------------|-----------------------------|--|
| OTHER FINANCING SOURCES (USES): | | | | |
| Sales of fixed assets | \$ 106 | | | 106 |
| Operating transfers from other funds | | 18,419 | | 18,419 |
| Operating transfers to other funds | (18,311) | | (108) | (18,419) |
| OTHER FINANCING SOURCES(USES)-NET | <u>(18,205)</u> | <u>18,419</u> | <u>(108)</u> | <u>106</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | 8,918 | 293 | (4) | 9,207 |
| FUND BALANCE, JULY 1, 2000 | 134,039 | 5,641 | 288 | 139,968 |
| CONTRIBUTION TO COUNTY OF LOS ANGELES (Note 2) | <u>(758)</u> | | | <u>(758)</u> |
| FUND BALANCE, JUNE 30, 2001 | <u>\$ 142,199</u> | <u>5,934</u> | <u>284</u> | <u>148,417</u> |

See accompanying notes to financial statements.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 GENERAL FUND AND DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

| | GENERAL FUND | | | DEBT SERVICE FUNDS | | |
|--|-----------------|--------------------------------------|-------------------------|--------------------|--------------------------------------|-------------------------|
| | <u>BUDGET</u> | <u>ACTUAL ON BUDGETARY BASIS</u> | <u>OVER (UNDER)</u> | <u>BUDGET</u> | <u>ACTUAL ON BUDGETARY BASIS</u> | <u>OVER (UNDER)</u> |
| REVENUES: | | | | | | |
| Taxes | \$ 57,660 | 56,718 | (942) | 7,764 | 8,736 | 972 |
| Licenses and permits | 400 | 598 | 198 | | | |
| Fines, forfeitures and penalties | 1,800 | 1,474 | (326) | 125 | 73 | (52) |
| Interest | 5,000 | 7,603 | 2,603 | 278 | 287 | 9 |
| Rents and royalties | 3,250 | 5,693 | 2,443 | | | |
| Intergovernmental revenues: | | | | | | |
| Federal | 5,806 | 5,250 | (556) | | | |
| State | 1,830 | 2,198 | 368 | | | |
| Other | 1,119 | 1,530 | 411 | | 14 | 14 |
| Charges for services | 112,493 | 106,604 | (5,889) | | | |
| Miscellaneous | 360 | 2,272 | 1,912 | | | |
| TOTAL REVENUES | 189,718 | 189,940 | 222 | 8,167 | 9,110 | 943 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Services and supplies | 254,074 | 251,474 | (2,600) | | | |
| Other charges | 20,980 | 19,608 | (1,372) | | | |
| Debt Service: | | | | | | |
| Principal | | | | 7,520 | 7,520 | 0 |
| Interest | | | | 1,383 | 1,382 | (1) |
| Capital outlay | 4,704 | 3,188 | (1,516) | | | |
| TOTAL EXPENDITURES | 279,758 | 274,270 (A) | (5,488) | 8,903 | 8,902 | (1) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (90,040) | (84,330) | 5,710 | (736) | 208 | 944 |

Continued...

(A) Includes encumbrances of \$85,882,000 outstanding at year-end.

See accompanying notes to financial statements.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 GENERAL FUND AND DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

| | GENERAL FUND | | | DEBT SERVICE FUND | | |
|---|---------------|--------------------------------------|-------------------------|-------------------|--------------------------------------|-------------------------|
| | <u>BUDGET</u> | <u>ACTUAL ON BUDGETARY BASIS</u> | <u>OVER (UNDER)</u> | <u>BUDGET</u> | <u>ACTUAL ON BUDGETARY BASIS</u> | <u>OVER (UNDER)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Sales of fixed assets | 400 | 106 | (294) | | | |
| Encumbrances, beginning of year | 91,576 | 91,576 | | | | |
| OTHER FINANCING SOURCES (USES) | 91,976 | 91,682 | (294) | | | |
| EXCESS (DEFICIENCY) OF REVENUES AND REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | 1,936 | 7,352 | 5,416 | (736) | 208 | 944 |
| FUND BALANCE, JULY 1, 2000 | 50,353 | 50,353 | | 5,312 | 5,312 | |
| CONTRIBUTION TO COUNTY OF LOS ANGELES | (1,134) | (758) | 376 | | | |
| FUND BALANCE, JUNE 30, 2001 (Note 8) | \$ 51,155 | 56,947 | 5,792 | 4,576 | 5,520 | 944 |

See accompanying notes to financial statements.

Notes to Financial Statements
June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Los Angeles County Flood Control District ("District") is empowered to carry out the objectives of the Los Angeles County Flood Control Act. The objectives are to provide for the control and conservation of flood, storm and other wastewater and to protect from damage from such flood or storm waters, the harbors, waterways, public highways and property within the District. These powers are exercised through the County of Los Angeles ("County") Board of Supervisors, which acts as the governing body of the District. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and determines when to issue bonds authorized by the voters of the District.

Reporting Entity

In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 14, District management has determined that the Public Works Financing Authority ("PWFA") should be included in the financial statements of the District as a blended component unit. Because the PWFA is dependent upon the District for funding, only that portion related to the District has been included. The PWFA is a public agency organized pursuant to a Joint Exercise of Powers Agreement between the District and the County dated May 18, 1993. The PWFA is empowered to finance District fixed assets through the issuance of bonds.

Blended component units are those that, because of the closeness of the relationship with the primary government, should be blended in the financial statements as though they are part of the primary government. GASB Statement No. 14 provides that certain entities that are less closely related to the primary government be included in the financial statements in a separate (discrete presentation) column. The District does not have any component units that should be discretely presented. Additional financial information for the PWFA may be obtained from the Department of Public Works at 900 South Fremont Avenue, Alhambra, California, 91803.

The District is included as a component unit in the County financial reporting entity and is included in the County's comprehensive annual financial report for the year ended June 30, 2001. The financial resources and operations of the District are accounted for in the fund types and account groups discussed below.

Notes to Financial Statements

June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Presentation

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, which is segregated for the purpose of carrying on specific activities.

Account groups are used to establish accounting control and accountability for the District's general fixed assets and general long-term obligations. Account groups are not funds, as they do not reflect available financial resources and related liabilities.

The accompanying financial statements consist of the following fund types and account groups:

Governmental Fund Types

General Fund

The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of flood control structures financed by general long-term debt.

Fiduciary Fund Type

Agency Fund

The Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental entities or other funds.

Account Groups

General Fixed Assets Account Group

The General Fixed Assets Account Group is used to account for general fixed assets of the District.

General Long-Term Debt Account Group

The General Long-Term Debt Account Group is used to account for the unmatured principal of general obligation bonds and other general long-term obligations.

Notes to Financial Statements

June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The District uses the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance operations during the year. Secured and unsecured property taxes and benefit assessments estimated to be collectible in future years are recorded as receivables and deferred revenue.

Interest income and charges for current services are accrued when earned and determined available. Changes in the fair value of investments are recognized as revenues at the end of each year. Federal and State grants are recorded as revenue when determined to be available, entitlement occurs, and related eligible expenditures are incurred. Revenues that are not considered susceptible to accrual include licenses, permits, and miscellaneous revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recognized when payment is due.

Budgetary Data

In accordance with the provisions of Section 29000-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and the Debt Service Fund on a basis of accounting which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, outstanding commitments related to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under the GAAP basis, these obligations are only recognized when goods are received or services are rendered. Obligations for litigation and self-insurance claims are recognized under the budgetary basis when they become due and payable. Under the GAAP

Notes to Financial Statements

June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Budgetary Data-Continued

basis, these items are recognized as expenditures if they become due and payable within one year of the balance sheet date.

Investment income includes the effect of changes in the fair value of investment. For budgetary purposes, investment income is recognized prior to the effect of such fair value changes. Note 8 indicates specific differences between the two bases of accounting as of June 30, 2001.

Expenditures are controlled at the object level for all District budgets, except for fixed asset expenditures, which are controlled at the sub-object level. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2001.

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General Fund and Capital Projects Fund. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately expected to result if the unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balances for subsequent year expenditures (see Note 7).

Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act.

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Codes and Revenue and Taxation Codes. Property is assessed at 100% of full cash or market value (with some exceptions). Pursuant to such legislation, the Board of Supervisors levies a property tax to support general operations of the various jurisdictions (ad valorem tax) which is limited to one percent (1%) of full cash value of property and distributes the collections in accordance with statutory formulae. The District receives an apportionment from the property tax levy which is a major source of District revenue.

Notes to Financial Statements
June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

Property taxes are levied on both real and personal property. Secured property taxes are levied during September of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. The proceeds are used to pay the delinquent amounts due, and any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 and become delinquent, if unpaid, on August 31. Unsecured property tax receivables are reduced by an amount estimated to be uncollectible, which is based on a five-year historical average collection percentage.

Benefit Assessments

The District, as authorized by the Government Code, levies an assessment on each parcel of real property within the District, except on property owned by federal, State or local government agencies. The assessment, as approved by the Board of Supervisors, is levied in proportion to benefits received, determined on the basis of the proportionate storm water runoff from each parcel. The purpose of benefit assessments is to cover the cost of providing flood control services within the District not offset by other available revenues.

Deposits and Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the accompanying financial statements reflect the fair value of investments. Changes in fair value that occur during a fiscal year are recognized as investment income reported for the fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each fund's share in the pool is displayed in the accompanying financial statements as pooled cash and investments. Investment income earned by the pooled

Notes to Financial Statements

June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments – Continued

investments is allocated to various funds based on the fund's average cash and investment balance, as provided by California Government Code Section 53647.

The fair value of pooled investments is determined annually and based on current market prices. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals rather than market value.

Fixed Assets

Expenditures for general fixed assets are recorded in the General Fund and Capital Projects Funds. The historical cost of these assets is recorded in the General Fixed Assets Account Group, except certain flood control construction projects, considered infrastructure assets, which are not capitalized. Such infrastructure assets are of value only to the District; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets in the General Fixed Assets Account Group. Depreciation is not provided on general fixed assets. Fixed assets received through gift or contribution are recorded at estimated market value on the date of receipt. A schedule of fixed assets is presented in Note 4.

Long-Term Obligations

Long-term debt is recognized as a liability of the governmental fund when due. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group (see Note 5).

Self-Insurance Claims

The District has self-insurance programs for public liability and property damage. The District records estimated liabilities for self-insured claims filed or estimated to be filed for incidents that have occurred. The long-term portion of the estimated liabilities for self-insurance claims is recorded in the General Long-Term Debt Account Group. Disclosures related to the District's risk management program appear in Note 6.

Total Columns on Financial Statements

Total columns on the accompanying combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial

Notes to Financial Statements
June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Total Columns on Financial Statements-Continued

analysis. Data in these columns do not purport to present financial position, results of operations, or changes in financial position of the District in conformity with generally accepted accounting principles reporting. Such data is not comparable to a consolidation.

2. TRANSACTIONS WITH THE COUNTY

Pursuant to an agreement between the District and the County, the County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing District services. Supply pool and equipment costs are also billed based upon actual usage by the District. Accordingly, the District has no supplies inventory or employee-related liabilities (e.g., pension, compensated absences, and workers' compensation). For the year ended June 30, 2001, the County's billings to the District's General Fund approximated \$72,876,761. Costs associated with shared equipment are funded through an internal service fund and are recorded as "Contribution to the County of Los Angeles". For the year ended June 30, 2001, "Contribution to the County of Los Angeles" from the District's general fund is \$758,000.

During the course of its operations, the District has numerous transactions with the other funds of the County in order to finance operations, provide services, purchase assets and apportion property taxes. To the extent that certain transactions between the District and these funds had not been paid or received as of June 30, 2001, balances of interfund amounts receivable or payable have been recorded in the accounts Due From or Due To the County of Los Angeles.

On April 16, 1990, the District entered into a cost-sharing agreement with the County relative to the Public Works Headquarters Building (the "Building"). The agreement provides for the County to make rental payments to the District in exchange for its occupancy of the Building. Furthermore, the County has agreed to pay for its proportionate share of the Building's operating costs. For the year ended June 30, 2001, County rental payments to the District totaled \$4,143,847.

The District issued certificates of participation in 1987 that were subsequently defeased and replaced with refunding bonds in August 1993 to acquire the Building (see Note 5). The District's management has no intention of selling the Building. However, in the event the Building was sold, the proceeds of the sale in excess of

Notes to Financial Statements

June 30, 2001

2. TRANSACTIONS WITH THE COUNTY-Continued

any outstanding indebtedness would be shared by the District and the County in proportion to each entity's share of the Building's cost.

3. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, certain cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. The District's share of the total pooled cash and investments, included in the combined balance sheet under "Pooled cash and investments", was \$131,008,797 and represents approximately 1.07% of the total pool.

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool, as an increase or reduction in interest earnings. The unrealized gain on the District's proportionate share of investments held in the treasurer's Pool was \$313,542 as of June 30, 2001.

Statutes authorize the pool to invest in obligations of the United States Treasury federal agencies, local agencies, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, medium-term notes rated A or better by a nationally recognized rating service, repurchase agreements, and reverse repurchase agreements.

The investments are managed by the County Treasurer, who reports on a monthly basis to the Board of Supervisors. In addition, the function of the County Treasurer Oversight Committee is to review and monitor the County's investment policy. The Committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and non-County representatives.

GASB Statement Number 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasurer pool is presented in Note 3 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001.

Notes to Financial Statements

June 30, 2001

3. CASH AND INVESTMENTS-Continued

Other Investments

"Other investments" consist of a \$4,157,232 note secured by the San Gabriel Valley Hydroelectric Project. This investment is on deposit with the County Treasurer. In addition, "other investments" in the Capital Projects Fund consist of \$184,000 in investments held by a trustee in accordance with provisions of the bond indenture relative to capital construction and refunding bonds issued during the year ended June 30, 1994. The investment is not evidenced by issued securities and, per GASB Number 3, is not classified into a risk category.

District investments for all amounts recorded as "other investments" are categorized as follows at June 30, 2001 (in thousands):

| | <u>Category 1</u> | <u>Fair Value</u> |
|---------------------------------|-------------------|-------------------|
| Municipals | <u>\$4,157</u> | \$4,157 |
| | <u>\$4,157</u> | |
| Investment in Money Market Fund | | <u>184</u> |
| Total | | <u>\$4,341</u> |

4. GENERAL FIXED ASSETS

A summary of changes to general fixed assets, the total of which is recorded in the General Fixed Assets Account Group, is shown below (in thousands):

| | <u>Land</u> | <u>Structures and Improvements</u> | <u>Equipment</u> | <u>Construction in Progress</u> | <u>Total</u> |
|---------------|----------------|--|------------------|---|-----------------|
| Balance | | | | | |
| July 1, 2000 | \$3,831 | \$ 62,286 | \$1,600 | \$ 1,747 | \$69,464 |
| Additions | 0 | 1,293 | 180 | 312 | 1,785 |
| Deletions | <u>0</u> | <u>4</u> | <u>154</u> | <u>1,294</u> | <u>1,452</u> |
| Balance | | | | | |
| June 30, 2001 | <u>\$3,831</u> | <u>\$ 63,575</u> | <u>\$1,626</u> | <u>\$ 765</u> | <u>\$69,797</u> |

Notes to Financial Statements
June 30, 2001

5. LONG-TERM OBLIGATIONS

Long-term obligations of the District, recorded in the General Long-Term Debt Account Group, consist of general obligation bonds, capital construction and refunding bonds, and other liabilities.

General Obligation Bonds

Pursuant to the Los Angeles County Flood Control Act and voter approval, the District is authorized to issue bonds. The proceeds from the sale of bonds were used for the construction of storm drain systems. The District's general obligation bonds outstanding at June 30, 2001, are summarized as follows (in thousands):

| | |
|---|-----------------|
| \$252,000 authorized 1970, \$252,000 issued; due in annual installments through 2008; interest at 4.0% to 8.2% | \$17,930 |
| \$60,000 refunding bonds authorized 1993, \$50,290 issued; due in annual installments through 2006; interest at 2.6% to 5.15% | 5,710 |
| | <u>\$23,640</u> |

Aggregate debt service requirements to maturity of general obligation bonds as of June 30, 2001, are as follows (in thousands):

| <u>Year Ending June 30</u> | |
|------------------------------------|-----------------|
| 2002 | \$7,712 |
| 2003 | 6,776 |
| 2004 | 5,285 |
| 2005-2008 | 6,579 |
| Subtotal | 26,352 |
| Less: Amount representing interest | <u>(2,712)</u> |
| Total | <u>\$23,640</u> |

Capital Construction and Refunding Bonds

In August 1993, the Los Angeles County Public Works Financing Authority issued \$238,695,000 in capital construction and refunding bonds. The capital construction and refunding bonds are secured by installment purchase payments, which are unconditional obligations of the District.

Aggregate debt service requirements to maturity of capital construction and refunding bonds as of June 30, 2001, are as follows (in thousands):

Notes to Financial Statements
June 30, 2001

5. LONG-TERM OBLIGATIONS-Continued

Capital Construction and Refunding Bonds-Continued

| <u>Year Ending June 30</u> | |
|------------------------------------|------------------|
| 2002 | \$ 18,429 |
| 2003 | 18,424 |
| 2004 | 18,427 |
| 2005-2009 | 92,124 |
| 2010-2014 | 76,141 |
| 2015-2017 | <u>7,288</u> |
| Subtotal | \$230,833 |
| Less: Amount representing interest | <u>(62,586)</u> |
| Total | <u>\$168,247</u> |

The following is a summary of changes in general long-term obligations recorded in the General Long-Term Debt Account Group (in thousands):

| | <u>Balance</u> <u>July 1, 2000</u> | <u>Additions</u> <u>(Deletions)</u> | <u>Maturities</u> | <u>Balance</u> <u>June 30, 2001</u> |
|---------------|---------------------------------------|--|-------------------|--|
| Bonds Payable | \$209,072 | \$0 | \$(17,185) | \$191,887 |

6. RISK MANAGEMENT

The District has programs for public liability and property damage. There have been no settlements related to these programs that exceeded insurance coverage during the 2000-01 fiscal year. The District retains the risk for all loss exposure in excess of insurance coverage. Expenditures are accounted for in the fund whose operations resulted in the loss. Claims, expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The District utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities.

As of June 30, 2001, the District's best estimate of these liabilities is \$851,000. Changes in the reported liability since June 30, 1999 resulted from the following (in thousands):

Notes to Financial Statements

June 30, 2001

6. RISK MANAGEMENT-Continued

| | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimate | Claim Payments | Balance at Fiscal Year-End |
|---------|--|--|-------------------|----------------------------------|
| 1999-00 | \$ 1,626 | \$ 108 | \$ (1,662) | \$72 |
| 2000-01 | 72 | 1,767 | (988) | 851 |

During the 2000-01 fiscal year, the District was ordered to pay a judgment in an inverse condemnation lawsuit. In January 2002, the District settled the case for \$850,000. The settlement will be processed through the Claims Board and the Board of Supervisors for final approval. An estimated liability of \$850,000 has been recognized as an expense during fiscal year 2000-01, and is shown as an estimated liability for litigation in the June 30, 2001 combined balance sheet.

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$5,527,000 are possible of creating an adverse judgement against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

7. FUND BALANCES

The following is a summary of reserved and designated fund balances as of June 30, 2001, which are not available for appropriation and expenditure (in thousands):

| | General Fund | Debt Service Funds |
|-------------------------|------------------|-----------------------|
| <u>Reserved:</u> | | |
| Encumbrances | \$ 85,882 | |
| Debt Service | | \$ 5,934 |
| Other Investments | 4,157 | |
| Other | 3,011 | |
| Reserved Fund Balance | <u>\$ 93,050</u> | <u>\$ 5,934</u> |
| <u>Designated:</u> | General Fund | |
| L.A. County Designated | \$ 19,387 | |
| Area Project | | |
| Flood Control Districts | 12,000 | |
| Infrastructure | | |
| Designated Fund Balance | <u>\$ 31,387</u> | |

Notes to Financial Statements

June 30, 2001

8. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on Budgetary Basis - General Fund and Debt Service Funds has been prepared on the budgetary basis, which is different from GAAP. An explanation of these differences appears in Note 1.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2001 (in thousands):

| | General Fund | Debt Service Fund |
|--|--------------|-------------------|
| Fund Balance – Budgetary Basis | \$56,947 | \$5,520 |
| Encumbrances Outstanding at Year-End | 85,882 | 0 |
| Subtotal | 142,829 | 5,520 |
| Adjustments: | | |
| Accrual for Estimated Liability for Litigation and Self-Insurance Claims | (851) | |
| Change in Revenue Accruals | 221 | 414 |
| Fund Balance – GAAP Basis | \$ 142,199 | \$ 5,934 |

9. 1993 AND 1998 STORMS

During 1993 and 1998, Southern California experienced heavy rainfall that caused damage to some District infrastructure. As discussed in Note 1, the District does not capitalize such infrastructure assets. The District estimates, as of June 30, 2001, that the cost to repair or replace the damaged assets will be approximately \$440,000 for the 1993 Storms and \$1,600,000 for the 1998 Storms. The District continues to assess its damaged infrastructure assets. These amounts, which are not covered by FEMA, will be paid through an expenditure account for the repairs to the assets.

10. PROPOSITION 218

In November 1996, the voters approved the "Right to Vote on Taxes Act" (Proposition 218) which limits the District's ability to levy additional property related

Notes to Financial Statements
June 30, 2001

10. PROPOSITION 218-Continued

benefit assessments without owner approval. In September 1998, The Board of Supervisors approved ordinance amendments to bring the County's general purpose taxes into conformance with proposition 218. The District's existing benefit assessments are exempt under Proposition 218. However, any future increases to property related benefit assessments may be subject to property owner approval.

11. GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board has issued statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments" (GASB 34). Among the numerous issues to be addressed by the District regarding the implementation of GASB 34 is the valuation, subsequent recording and depreciation of the District's infrastructure fixed assets. Such assets have previously not been required to be recorded by units of state and local government under generally accepted accounting principles. The District has established an implementation committee to implement this new reporting requirement. Their evaluation has primarily consisted of identifying and agreeing on a method to report infrastructure costs. As a result, the District has established guidelines and provided instructions to track and record contract payments for infrastructure improvements, additions, and preservations beginning July 1, 2001. The District fully intends to implement GASB 34 for the financial reporting period ending June 30, 2002, as required. An additional four years is provided to comply with retroactive reporting of infrastructure assets.